Tenaga Nasional (TNB MK)

Valuable Insight Into BESS And CRESS Project Sites In Terengganu

BUY (Maintained)	
Share Price	RM14.28
Target Price	RM16.30
Upside	14.1%

Highlights

- Tenaga recently showcased its pioneer 100MW/ 400MWh grid-forming BESS project in Terengganu. This project came on stream last month, with capex of RM380m to be booked under RP4 as base capex and earning a 7.3% return for Tenaga.
- Additionally, Tenaga highlighted its first CRESS project – a floating solar project on Kenyir dam. This 595MW hybrid hydro floating solar project is expected to generate good returns from 2028 onwards, based on a 21-year CRESS agreement signed with DayOne Data Center on a take-or-pay basis.
- We continue to like Tenaga's cash flow prowess under the new AFA scheme. Maintain BUY with a DCF-based target price of RM16.30.

Analysis

- **Flagship visit to Kuala Terengganu's BESS and Kenyir dam.** Tenaga Nasional (Tenaga) recently hosted a visit to two of its distinct sites, namely: a) a 100MW/400MWh Santong Battery Energy Storage System (BESS) project, and b) a 595MW hybrid hydro floating solar (HHFS) project in Kenyir Lake. The HHFS project is a pioneer Corporate Renewable Energy Supply Scheme (CRESS) project signed with DayOne Data Center, operational in 2028 – accounting for 25% of Malaysia's target for floating solar under the National Energy Transition Roadmap (NETR). We came away confident that Tenaga can calibrate and achieve its roadmap of achieving 70% renewable energy (RE) capacity by 2050.
- **Santong: First grid-forming BESS in Malaysia.** Our first visit to 100MW/400MWh Santong BESS was interesting in that it was Malaysia's first grid forming BESS. Parked as a regulated based asset under Regulatory Period 4 (RP4), this BESS project will help stabilise the grid system and mitigate intermittency from solar power injection. The project started operations in Jun 26 with a total capex of RM380m. This Santong BESS project will earn Tenaga a 7.3% return on asset under RP4. As more RE is injected into the grid, there is a need for more implementation of BESS. We gathered from Tenaga that for now, Peninsular Malaysia has 4.5GW of installed RE capacity. Once the RE capacity goes up to 6GW, the grid will have to be strengthened further to ensure integrity of the system.
- **Kenyir Lake: Tenaga's first 595MW CRESS project.** Our second visit to Kenyir hydro dam showcased Tenaga's pilot site for a 595MW HHFS – with electricity to be sold to DayOne Data Centers II (offtaker) over a 21-year period. The contract is a take-or-pay model via CRESS mechanism, first of its kind in Peninsular Malaysia. This is positive for TNB Genco.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	56,737	67,723	69,555	71,480	73,306
EBITDA	19,953	20,518	22,854	23,652	24,323
Operating profit	8,720	8,532	10,202	11,027	11,666
Net profit (rep./act.)	3,978	4,768	4,927	5,078	5,164
Net profit (adj.)	4,126	4,767	4,927	5,078	5,164
EPS	72.6	81.8	84.5	87.1	88.6
PE	19.9	17.7	17.1	16.6	16.3
P/B	1.7	1.7	1.6	1.6	1.5
EV/EBITDA	6.0	6.4	5.9	5.8	5.8
Dividend yield	3.5	3.7	3.9	4.2	4.6
Net margin	6.2	5.8	7.1	7.1	0.0
Net debt/(cash) to equity	75.0	90.7	97.0	99.6	102.6
Interest cover	4.2	4.4	4.6	4.4	4.3
ROE	7.6	9.5	9.5	9.6	9.5
Consensus net profit	-	-	4,865	5,080	5,281
UOBKH/Consensus (x)	-	-	1.01	1.00	0.98

Source: Tenaga, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Utilities
Bloomberg ticker	TNB MK
Shares issued (m)	5,821.9
Market cap (RMm)	83,240.2
Market cap (US$m)	20,382.0
3-mth avg daily t'over (US$m)	14.4

Price Performance (%)

52-week high/low				RM14.90/RM12.50
1mth	3mth	6mth	1yr	YTD
0.0	0.9	3.6	(4.2)	4.1

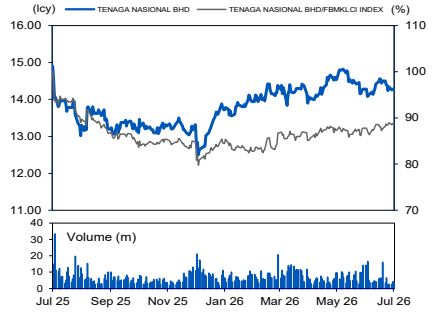
Major Shareholders

	%
EPF	24.9
Khazanah Nasional	17.7
Amanah Saham Nasional	11.2

Balance Sheet Metrics

FY25F NAV/Share (RM)	10.92
FY25F Net Debt/Share (RM)	7.11

Price Chart

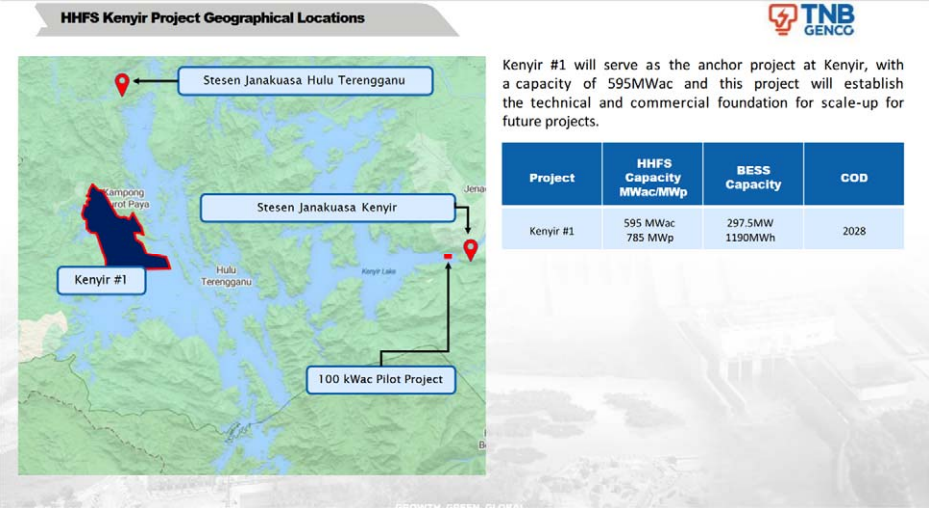


Source: Bloomberg

Company Description

Generates and distributes electricity in Peninsular Malaysia and Sabah.

Kenyir HHFS With CRESS Signed With DayOne



Source: Tenaga

- **Harnessing massive RE power potential of Kenyir hydro dam.** Under the NETR, TNB Genco is spearheading 2.5GW of HHFS initiative for a low-carbon energy future. This is based on 10% of Kenyir dam water body coverage. On a full potential basis, Tenaga expects to harness up to 7.5GW of solar capacity from Kenyir dam – based on 50-60% of water body coverage.

Valuation/Recommendation

- **Maintain BUY with a DCF-based target price of RM16.30** (discount rate: 8%, growth rate: 1%). Our equity risk premium on the stock at 7.8% reflects Tenaga's tariff autonomy and the gradual decoupling of tariffs from the government's purview. At our target price, the stock trades at 17.3x 2025 EPS, +2SD above five-year mean PE.

Earnings Revision/Risk

- No change to earnings.
- **Key risks** include: a) lumpy and unprofitable overseas RE projects, and b) forex risk to operating cash flow.

Share Price Catalyst

- **Key re-rating catalysts** include: a) recognition of contingent capex in the 2026-27 earnings window, b) listing of a profitable genco and/or RE division, and c) benefitting from the ASEAN Power Grid rollout.

Environmental, Social, Governance (ESG) Updates

Environmental

- Besides targeting 8,300MW in RE generation capacity by 2026 (1.5x from 3,398MW in Dec 20), TNB has also made new pledges to reduce emissions intensity by 2035 and to be coal-free by 2050.

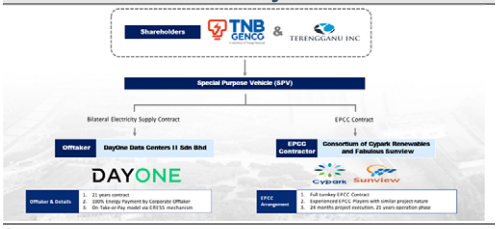
Social

- Tenaga contributed RM101.3m towards education, economic social, environment and sports, benefitting 713,748 individuals nationwide.

Governance

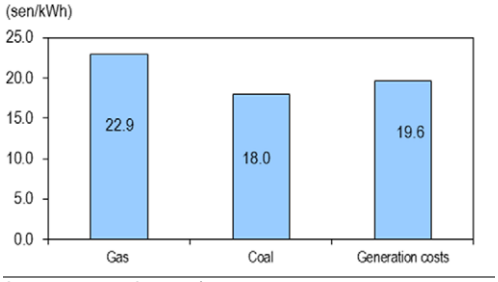
- Good company transparency along with an anti-bribery and whistle-blowing policy.

CRESS Offtake With DayOne Data Center



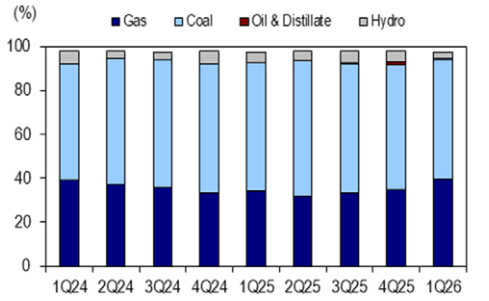
Source: Tenaga

Generation Unit Cost (1Q26)



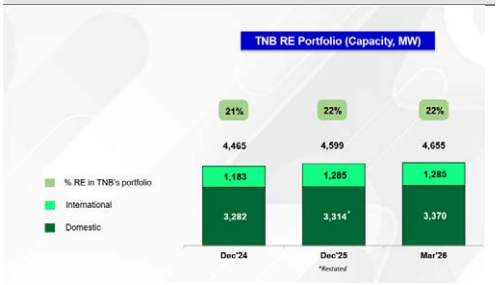
Source: Tenaga, UOB Kay Hian

Generation Mix



Source: Tenaga, UOB Kay Hian

RE Portfolio



Source: Tenaga

Profit & Loss

Year to 31 Dec (RMm)	2025	2026	2027F	2028F
Net turnover	**67,723**	**69,555**	**71,480**	**73,306**
EBITDA	20,518	22,854	23,652	24,323
Deprec. & amort.	11,986	12,653	12,625	12,657
EBIT	24,277	23,810	24,908	25,825
Total other non-operating income	51	0	0	0
Associate contributions	88	92	97	102
Net interest income/(expense)	-3,363	-3,976	-4,612	-5,145
Pre-tax profit	**6,177**	**6,318**	**6,512**	**6,623**
Tax	-1,407	-1,390	-1,433	-1,457
Minorities	-2	-2	-2	-2
Net profit	**4,768**	**4,927**	**5,078**	**5,164**
Net profit (adj.)	4,767	4,927	5,078	5,164

Balance Sheet

Year to 31 Dec (RMm)	2025	2026	2027F	2028F
Fixed assets	132,885	137,099	141,340	145,550
Other LT assets	36,953	37,045	37,142	37,244
Cash/ST investment	12,867	7,908	4,893	1,734
Other current assets	15,650	18,255	18,518	18,767
Total assets	**198,355**	**200,307**	**201,893**	**203,295**
ST debt	11,952	11,852	11,752	11,652
Other current liabilities	24,636	25,186	25,474	25,770
LT debt	47,134	47,034	46,934	46,834
Other LT liabilities	61,659	61,659	61,659	61,659
Shareholders' equity	50,790	52,391	53,887	55,192
Minority interest	2,185	2,186	2,188	2,190
Total liabilities & equity	**198,355**	**200,307**	**201,893**	**203,295**

Cash Flow

Year to 31 Dec (RMm)	2025	2026	2027F	2028F
Operating	**15,570**	**21,764**	**22,245**	**22,912**
Pre-tax profit	6,177	6,318	6,512	6,623
Tax	-1,407	-1,390	-1,433	-1,457
Deprec. & amort.	11,986	12,653	12,625	12,657
Associates	-88	-92	-97	-102
Working capital changes	945	300	25	46
Non-cash items	0	0	0	0
Other operating cashflows	-2,042	3,976	4,612	5,145
Investing	**-13,192**	**-16,366**	**-16,463**	**-16,618**
Capex (growth)	-16,246	-16,867	-16,867	-16,867
Investments	7	0	0	0
Others	3,047	500	404	249
Financing	**-6,994**	**-8,002**	**-8,798**	**-9,453**
Dividend payments	-3,089	-3,326	-3,582	-3,859
Issue of shares	110	0	0	0
Proceeds from borrowings	1,679	-200	-200	-200
Others/interest paid	-5,693	-4,476	-5,016	-5,394
Net cash inflow (outflow)	**-4,616**	**-2,604**	**-3,015**	**-3,159**
Beginning cash & cash equivalent	**15,213**	**10,512**	**7,908**	**4,893**
Changes due to forex impact	-85	0	0	0
Ending cash & cash equivalent	**10,512**	**7,908**	**4,893**	**1,734**

Key Metrics

Year to 31 Dec (%)	2025	2026	2027F	2028F
Profitability				
EBITDA margin	30.3	32.9	33.1	33.2
Pre-tax margin	9.1	9.1	9.1	9.0
Net margin	6.2	5.8	7.1	7.1
ROA	2.4	2.5	2.5	2.5
ROE	9.5	9.5	9.6	9.5
Growth				
Turnover	19.4	2.7	5.5	8.2
EBITDA	2.8	11.4	3.5	2.8
Pre-tax profit	6.2	2.3	3.1	1.7
Net profit	19.9	3.3	3.1	1.7
Net profit (adj.)	32.1	3.3	3.1	1.7
EPS	32.1	3.3	3.1	1.7
Leverage				
Debt to total capital	111.5	107.9	104.7	101.9
Debt to equity	116.3	112.4	108.9	106.0
Net debt/(cash) to equity	91.0	97.3	99.8	102.8
Interest cover (x)	10.8	9.2	8.1	7.5

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